

Before the
POSTAL REGULATORY COMMISSION

Rate Adjustment Due to	:	
Extraordinary or Exceptional	:	Docket R2013-11
Circumstances	:	

PUBLIC HEARING QUESTIONS SUBMITTED BY
THE GREETING CARD ASSOCIATION

The Greeting Card Association (GCA), pursuant to Rule 3010.65(c), hereby submits 13 suggested questions to be propounded during the public hearings in this Docket. The first 12 questions would be directed to witness Thress, and the last question to witness Taufique.

The econometric estimates presented by Mr. Thress are probably the most important single feature of this case. They contain a number of innovations which in GCA's view must be thoroughly examined and understood before the estimates can be relied on. There is also a need to explore how, if at all, they reflect other contemporaneous events, not forming part of the recession identified as the exigency in this case but likely to have substantially influenced mail volume trends. The question which we suggest be posed to Mr. Taufique pursues a point GCA has already made in the companion docket¹: whether an unprecedented rate differential in Single-Piece First Class is being proposed in order to promote a conversion which has already taken place.

SUGGESTED QUESTIONS FOR MR. THRESS

1. It appears that the choices of starting dates for Mr. Thress's Intervention Analyses used in estimating his demand equations involved his own judgment as well as an examination of spikes in his recursive residuals. His econometric output appears to include only the final runs of these recursive residuals where

¹ See Docket No. R2013-10, Comments of the Greeting Card Association, pp. 6-8. As GCA noted in those Comments, the differential proposed in the price cap case is continued in the rates at issue here.

by definition there are no more spikes. Please provide the Commission with copies of the computer runs that witness Thress used as part of his process to determine the starting dates for his Intervention Analyses for each demand equation (for example, the Single-Piece First-Class Letter Mail equation has starting dates of 1993Q4, 2002Q4 and 2007Q4.

2. Please explain fully how and why your econometric demand equations in this case would produce radically different Intervention Analysis results compared with your January 22, 2013 demand equations with the addition of only three more quarters of data, i.e., the starting dates of the linear trends for Single-Piece First-Class Letter Mail in this case are 1993Q4, 2002Q4 and 2007Q4, whereas in your January 22, 2013 filing they were 2004Q2 and 2007Q4.
3. The introduction and rapid growth of smart phones in the U. S. are product innovations which began to ramp up right around the time of your third time trend for Single-Piece First-Class Letter Mail, 2007Q4 – 2013Q3. For example Apple's iPhone sales started in 2007 with 2.3 million units sold, were 24 million in 2009 when the recession ended, and 157.6 million in 2012. Samsung had sales of 154 million in 2007, 238 million in 2009 by the end of the recession and 396.5 million in 2012. (Data are from Samsung Electronics Annual Report and Apple Quarterly Reports.)
 - a. Please confirm that your third trend line for Single-Piece over this time period could be capturing diversion from the introduction of such smart phone innovations rather than the recession.
 - b. Please confirm that your third trend line could also be capturing other non-recession related factors affecting diversion.
 - c. If you do not confirm a. and/or b., please explain fully why you believe your third trend line is capturing nothing else other than the recession.
4. Please provide the correct annual percentage declines in Single-Piece First-Class Letter Mail volume for the linear trends in your demand equation filed on January 22, 2013 and also on September 26, 2013 that correspond to what you now say was a mistake in the July 1 Narrative, namely the annual percentages -3.8%, -4.7% and -9.7%.
5. In your September 26th demand equation for Single-Piece letter mail, your own-price elasticity is smaller using the definition of Single-Piece as letters flats and cards than it is if you had used as the definition of Single-Piece, letters, flats and parcels, -0.157 and -0.189 respectively.
 - a. What measure did you use in the January 22, 2013, filing at the Commission?
 - b. Why, in your September 26, 2013 filing, did you not use the traditional Letters-Flats-Parcels measure, so that there would be an apples-to-apples comparison, going back year to year?

6. Are your annual diversion rates for Single-Piece based on letters, flats and cards in your September 26th demand equation, whereas your January 22nd diversion rates were based on LFP, for any other reason than the fact that your own-price elasticity is lower using a letters, flats and cards definition of Single-Piece?
7. You justify abandoning your traditional measures of Internet usage variables in favor of linear trends for Single-Piece FCLM in this case on the grounds that the traditional measures are slowing down in growth or ceasing to grow whereas diversion of Single-Piece FCLM has not slowed down. Has the decline in the prices of e-substitutes stopped or as common knowledge would indicate has it proceeded apace, *pari passu* with the continued diversion of Single-Piece?
8. Please provide your estimation output of the First-Class Single-Piece Letters, Cards, and Flats without Intervention 3.
9. Please provide the sources of change similar to Sources-of-ChangeCalcs.xlsx for the original model and the model without the Intervention3 on a quarterly basis from 1983Q1 to 2013Q3.
10. Please consider the following table and confirm that it is correct. These are some of the output results from running your FCM SP letters, cards, flats equation with different EMPLOYMENT variables.

FCM SP Letters, Cards, and Flats Various Demand Equations							
	EMPLOYMENT VARIABLE	Elasticity	R-Squared	Intv1	Intv2	Intv3	DW
Thress as filed	EMPLOY_HPT*	0-.157023*	0.99826	-0.009896	-0.001067	-0.012746	2.113203
Version1	EMPLOY_HPT* & EMPLOY_HPC	-0.125137	0.998262	-0.00968	-0.00161	-0.012565	2.121658
Version2	EMPLOY_HPC*	-0.051935	0.997587	-0.00836	-0.00581	-0.011598	1.567871
Version3	NO EMPLOYMENT	-0.234691*	0.997385	-0.00892	-0.0051	-0.012164	2.134049
Version4	EMPLOY*	-0.05606	0.998102	-0.00900	-0.00354	-0.012027	1.964600
Notes: * denotes significant.							
EMPLOY=Employment per Adult Population							
EMPLOY_HPT=Hodrick-Prescott Trend Component of EMPLOY							
EMPLOY_HPC=Hodrick-Prescott Cyclical Component of EMPLOY							
Source: USPS-R2010-4R/9.							

In the above table, version 3 has no employment variable. It results in a highly significant own price elasticity with a value of -0.234691. Why did you not choose this version?

11. Please explain why you chose private employment rather than total employment. People who work in the government sector also use credit cards, the variable you are presumably interested in, given your focus on transactions.
12. Please refer to your tab "ForecastLvl" in sources-of-changeClcls.xlsx, in R2010-4R/10 in this case.
 - a. Please explain thoroughly step by step and equation by equation in your sources of change calculations how you separated the Interventions values into Diversion and Rec/Diversion.
 - b. Please state and explain if you have some type of interaction between your time trend and the employment variable which you have used as a proxy for recession. If there is no interaction, then how did you separate Interventions into diversion and rec/diversion? And if there is such interaction, where is it in your estimation of sources of change file?

SUGGESTED QUESTION FOR MR. TAUFIQUE

1. Did the Postal Service investigate or estimate the degree to which the small and mid-size businesses, which are cited as the target market for the one-cent Stamped vs. Metered Letter price differential in Single-Piece First-Class Letters, have already adopted metering in place of stamps? If so, please provide a description and the results of any such investigation, and the results and basis of, and methods used for, any such estimate.

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Respectfully submitted,

GREETING CARD ASSOCIATION

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